

C O N F I D E N T I A L SECTION 01 OF 04 OTTAWA 003283

SIPDIS

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SUBJECT: US-EU-CANADA DISCUSSIONS OF IRAN (CORRECTED VERSION)

Classified By: POL M/C Brian Flora. Reason 1.4 (b) and (d).

**¶1.** (C) SUMMARY. On October 26, NEA DAS Gordon Gray and a U.S. delegation met with senior EU Commission and Canadian officials in Ottawa to exchange views on Iran and discuss prospects for addressing human rights and security-related concerns. Topics covered included Iran's internal situation, its role and impact in the region, continuing support for terrorism and the nuclear impasse. Bilateral consultations with the EU on Arab reform and Iraq will be reported septel/notal. END SUMMARY.

**¶2.** (SBU) U.S. Participants:

- Gordon Gray, NEA DAS
- Jason Bruder, Iran desk officer
- Roopa Rangaswamy, nuclear nonproliferation officer (ISN/RA)
- Lisa Wishman, Embassy human rights officer
- Patricia Kim-Scott, Embassy polmil officer (notetaker)

Canadian Participants:

- Mark Bailey, DG Middle East and North Africa, Foreign Affairs Canada (FAC)
- Gordon Venner, Canadian Ambassador to Iran
- Evelyn Puxley, Director, International Crime and Terrorism Division
- Jeffrey McLaren, Deputy Director, Iran-Iraq, FAC
- Terry Wood, Deputy Director, Nuclear Nonproliferation Division, FAC
- Benoit Girouard, Iran desk officer, FAC
- Peter Jones, Privy Council Office (PCO)

EU Commission Participants:

- Julian Evans, UK Deputy High Commissioner for the Presidency
- Patrick Laurent, European Commission
- Bjorn Larsson, European Council Secretariat
- Chris Kendall, EC Representative Ottawa
- Martin Gaertner, Austrian Permanent Mission to the EU

#### CANADIAN PERSPECTIVE ON THE INTERNAL SITUATION

**¶3.** (C) Ambassador Venner provided a stark assessment of Iran's internal situation. Ahmadinejad's administration had not yet "found its feet"; key cabinet positions remained unfilled. The situation was compounded by the total dysfunction of the professional bureaucracy below the rank of Deputy Minister due to a dearth of qualified individuals.

**¶4.** (C) The country's economic situation had worsened considerably since the elections, Venner continued.

Indicators included a sharp drop in "commercial interest" from both Canadians and Iranians registered by the Embassy commercial section, while the consular section reported a 40 percent increase in visa requests (over the same period last year), and an 80 percent surge in passport applications (largely dual nationals). The drop in commercial activity had enabled Venner to deploy a commercial officer on TDY to Abu Dhabi where, ironically, a considerable contingent of the officer's new clientele happened to be "old" clients from Tehran. The regime has used greater oil revenues to paper over economic weaknesses and has increased subsidies for commodities such as bread and petrol to mollify the population.

**¶5.** (C) The transfer of entrepreneurial assets to Abu Dhabi and other venues raised the larger question of 'capital flight' from Iran. Venner speculated that the wealth leaving the country, fueled by the extensive and systematic government corruption, could run as high as CAD 200 billion (approx. USD 175 billion).

**¶6.** (C) To illustrate the venality of corruption within the system, Venner recounted the dilemma of a Canadian pharmaceuticals company that regularly worked with Iran's Red Crescent organization as the country's primary importer of pharmaceuticals. Sensing a "revenue opportunity," the Health Ministry had revoked the Red Crescent's exclusive license and dispersed the rights of supply to a "group" that immediately raised prices. In attempting to maneuver through the new system, Venner reported that the Canadian company encountered six different levels within the Health Ministry where it was necessary to pay a bribe. Moreover, because importers lacked offshore banking privileges, suppliers had to bribe a stream of bank officials to transfer the monies due them out of the country.

## EU RESPONSE

**¶17.** (C) Larsson thought it unlikely that Ahmadini-Nejad would tackle the country's economic infrastructure problems; he depended too heavily on the revolutionary guards that were part of the deeply rooted corruption. The government was running a budget deficit which it could probably sustain for some time, he said, but the unpredictable element was the ability to sustain the heavy petrol subsidies upon which the country's internal stability depended. Iran's economic policies were not sustainable, Larsson said, and a containment strategy was needed.

**¶18.** (C) Though the government had succeeded in making the Iranian economy relatively immune to external sanctions, Venner observed, Iran's big weakness was its gasoline subsidies. Oil-rich Iran remained heavily dependent on gasoline imports because it lacked internal refining capability. Absent those gasoline imports, the implications for stability were huge.

## HUMAN RIGHTS

**¶19.** (C) The prospects for advancing basic human rights remained dim, Venner said. One example of the Ahmadini-Nejad administration's policies included the segregation of public transportation. Women have been obliged to ride a women-only bus although the supply of buses remains inadequate. Organizations for the victims of domestic violence still came under some government oversight, and the NGO Prison Reform International had been expelled from the country because of its "association" with the UK.

**¶10.** (C) Responding to Gray's query, Venner acknowledged that treatment of the Ba'hai continued to be unacceptably poor; the societal bias against the Ba'hai ran deep. Even "highly-educated, well-meaning" Iranians bought into the government's propaganda that the Ba'hai existed as a "UK plot" to destabilize Iran. Girouard clarified that this year's UN human rights resolution contained the same number of references to the Ba'hai as last year, as well as an additional line regarding increased persecution of the sect.

**¶11.** (C) Laurent said that the EU had found that raising specific cases with the government could have an impact; the question was whether to do so publicly or privately. While some Iranians believed that public advocacy offered them a measure of protection, concerns remained about the potential for internal backlash. The challenge was to work with local human rights groups without their being fingered as "European agents." The EU was considering externally-based NGOs that had their own links inside Iran, though this wasn't without some consequences. Another approach was to reach out to civil society through NGOs in unrelated fields. Gray said the U.S. also was exploring ways to expand outreach to civil society and shared concerns about finding suitable NGOs.

**¶12.** (C) Venner said the regime had become expert at manipulating internal public opinion through systematic repression of objective news, while assuring the dissemination of biased, if not fabricated, information. A potential bright spot was the advent of satellite radio, which was taking off. Though classic rock-and-roll stations in the U.S. tended to be the most popular, Venner said that California-based news broadcasts in Farsi were generally derided for their bias.

## COMMISSION RESPONSE

**¶13.** (C) In assessing the post-election transition, from the election of Ahmadini-Nejad to the appointment of followers of the hard-line Haqqani school to intelligence and other sectors, the EU concluded that the new government is too radical. The message the EU was hearing from students within Iran was that they sought more direct engagement with the outside world; the question was how to go about this. A major concern was engaging willing interlocutors without endangering them. The EU was wary of creating a perception of "ganging up on" the regime, favoring a mutually supportive, more discreet approach. EU support of the Canadian resolution would have "major consequences," and was likely to delay further Iran's response to the EU.

## REGIONAL ROLE

**¶14.** (C) DAS Gray said the USG had seen no positive changes in recent foreign policy under the new administration. Ahmadini-Nejad's inflammatory remarks about Israel were indicative of his outlook. The regime was continuing its support for Hezbollah and Palestinian rejectionist groups such as Hezbollah, PIJ, and Hamas.

**¶15.** (C) In Iraq, the primary goal of Iran appears to be to keep the Coalition off balance through political interference, and demonstrated Iran's failure to live up to its Sharm El-Sheikh commitments. The introduction of

specially engineered explosive devices was of special concern. In Afghanistan, Iran was pressing the Karzai government to conclude a Soviet-style pact of friendship and non-aggression.

¶16. (C) Iran's relations with other Arab neighbors were equally poor. Gray was struck by increased Arab concerns about Iran's role in Iraq. Previously, Arab countries had been more worried that the Coalition might succeed in Iraq. Now, the concern appears to be that the coalition might fail. Arab League Secretary General Amre Moussa's recent visit to Baghdad was further evidence of such concern.

#### EU RESPONSE

¶17. (C) Evans agreed that Iran's continuing support for rejectionist groups was a very big concern and that its activity in Iraq flew in the face of Sharm el Sheikh. The pattern of Hezbollah use of improvised explosive devices was a major problem. The E.U. concurred with Gray Gulf states had voiced concern about the new administration in Iran.

#### IRANIAN MOTIVATION and POLICIES

¶18. (C) A Canadian analyst said that a combination of different Iranian national interests appeared to direct Iranian ideology and policy. While national security interests have a strong impact on policy at or near the country's borders, ideology tended to play a bigger role as one moved farther away from Iran's borders. Thus, in Afghanistan and Iraq, Iran's main interest would be to achieve stable countries where Iran plays an influential role. In his opinion attacks by separatists in Khuzestan were related to strikes against coalition forces in southern Iraq.

¶19. (C) Venner noted that there was still an ideological element in the government. He cited the example of the female Iranian suicide bomber in the occupied territories who was held up as a "model." Conservative cleric Mezba Yazdi was someone to "watch" in light of his hardline views on the broader region and the role that Iran should play.

¶20. (C) Gray asked if the EU was considering designation of Hezbollah as a terrorist entity. Evans clarified that while Hezbollah was not a proscribed entity, its "external wing" was, but was not certain if that was a U.K. or an EU proscription. He affirmed that the UK kept the status of Hezbollah under constant review. Larsson said there was no unanimity within the EU about putting the group on a terror list. Members of Hezbollah were in the government now, and shouldn't be "discouraged." Gray said there could be no question that Hezbollah was a terrorist organization and encouraged the EU to designate it as the U.S. has done since ¶1997. Bailey affirmed that Canada continued to list Hezbollah under UNSCR 1267 provisions and the Canadian criminal code, which provided greater penalties.

#### NUCLEAR PROGRAM

¶21. (C) Gaertner said that EU-Iran talks on nuclear activities had remained at a standstill since August. The EU was struggling to go back to negotiations but Iran wanted "no preconditions" this time; the EU had told them they had no other choice since negotiations could only resume under the framework of the Paris Agreement which requires a suspension on enrichment related and reprocessing activities. The EU hoped that Russia would be a positive influence and persuade Iran to come back to the table; it was important to have Russia, a UN Security Council member, on board.

¶22. (C) If talks resume, the EU hoped to explore  
-- flexibility on uranium conversion  
-- fuel supply guarantees (Russia could help with transparency)  
-- political guarantees  
-- security guarantees.

¶23. (C) Gray said the U.S. shared EU concerns. Venner noted that while the GOI adamantly denied that it had a nuclear weapons program, the Iranian public questioned why not. It seemed inevitable that Iran would achieve its objectives. The "comfort" of secure access to fuel would not prevent development of Iran's missile program or weapons. Containment and deterrence were the only ways to move forward.

¶24. (C) Terry Wood said the September 24 IAEA resolution which found Iran in noncompliance had given Iran pause; at the same time, US-EU-CAN needed to give some serious consideration to reporting them in 6 weeks' time, at the November BoG meeting. Wood made a pitch for continued close collaboration, strategizing and working on the NAM and the "weak-kneed" in the IAEA. He also asked for details on the possible initiatives that U/S Joseph had mentioned at the recent G-8 Senior Group meeting. Evans emphasized the importance of Russia's support as well as getting alongside South Africa and Brazil to buy into the process.

¶25. (C) Rangaswamy said the IAEA's September resolution had

set an important precedent in that it broke the need for consensus. In response to Wood's question, she noted that at the G-8 Senior Officials' meeting, Undersecretary Joseph had noted the need to force Iran to make a strategic decision to abandon its fuel cycle efforts through a combination of economic and political pressure, and by denying them technical access. She added that the U.S. is already working to establish measures for fuel supply assurances to ensure reliable access to nuclear fuel for civil nuclear programs. This initiative would also seek to discourage countries from developing indigenous enrichment and reprocessing capabilities.

126. (C) Canada's assessment was that Iran was deeply committed to a nuclear weapons program. Wood was skeptical that the Russian mediation would be successful. He also questioned how long the EU3/U.S. would give Russia, stressing that Iran would sense a weakness in international resolve if we do not seek to report Iran to the UNSC in November. He added that it was important, however, to manage the resolution in the run-up to the meeting. In soliciting 3rd countries, Canada was cognizant of the need to be "sensitive" to their perceptions. McLaren said that Iran had succeeded in convincing the NAM that the West intended to prevent developing countries from pursuing peaceful nuclear technology as provided in the NPT; we have not been successful in changing their minds. Rangaswamy added that US/Can/EU could do a better job of explaining the gradual, incremental approach to handling the Iran issue at the UNSC. We must emphasize that we do not seek immediate punitive measures at the UN Security Council and also seek to reinforce the IAEA.

27.(U) The U.S. delegation has cleared this cable.

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